DNA MUTATION OF

POWERHOUSE

Rhenald Kasali

Rhenald Kasali, Ph.D.

PERTAMINA ON THE MOVE

Penerbit PT Gramedia Pustaka Utama
Jakarta, 2008

PRESIDENTIAL KEYNOTE

Assalamu'alaikum warrahmatullahi wabarakatuh.
Greetings to everyone.

Half a century has past and Pertamina is now celebrating its fiftieth year. The past years have proven a valuable experience for the company as an instrumental part of governmental policies. The time has come for Pertamina to rise to the occasion and enter a new world that demands the function of a true business entity. However, this rise must be equaled in efficiency and innovation in order to produce new breakthroughs that provide an added value for Pertamina.

During my visit to Pertamina headquarter not too long ago, I had the chance to talk with Pertamina Directors. During our discussion I emphasized several points, that is: do something, create something, achieve success, and build your legacy. It is important that the leaders of Pertamina build its strong business force as a corruption-free zone. This is important as I realize the complexity and the scope of problems in Pertamina. The increase in world oil prices has provided the opportunity for Pertamina to increase its production. This production increase must be parallel to the increase in efficiency so that people may also reap the benefits of the increasing oil prices. Aside from this, Pertamina should play an important role in the government efforts to speed up energy efficiency through the kerosene to Liquified Petroleum Gas (LPG) conversion program, as it did in the past. I am confident that this program will succeed with Pertamina's involvement.

Fifty years is not a short time, and experience may serve as a teacher for improvements wherever it is needed. Pertamina has lots of past experiences and it is a large-scale business, so it is about time that the company is managed in a professional and transparent manner, with sustainable innovations. This will enable the company to optimally contribute to the national economic growth.
Reestablishment within Pertamina is currently in motion. These improvements are being done in the upstream and downstream sectors. The transformation pro-

gram that Pertamina initiated has already begun to show results. We can see Pertamina gas stations everywhere being remodeled into eye-catching and managed entities, well competing with competitors' gas stations that have appeared. It is hoped that this transformation program should not stop here but continue and be maintained.

I strongly support the publication of this book that will serve as a source of information on the Pertamina transformation program, whether it is for Pertamina, oil and gas business players or the public at large. Furthermore, this book serves as a medium for Pertamina to communicate openly and bring the growing transparency within Pertamina into realization. I hope this effort brings with it positive outcomes. May you persevere and work together in giving the best values and benefits for our country and nation.

Happy 50th anniversary.

Long live Pertamina.

Wassalamu'alaikum warrahmatullahi wabarakatuh.

Jakarta, December 18, 2007
PRESIDEN OF THE REPUBLIC OF INDONESIA

DR. H. SUSILO BAMBANG YUDHOYONO

FOREWARD

Building a True Economic Powerhouse

One year ago (2006), Pertamina conducted a survey in order to find out the society's perception on the company. The results of the survey were not surprising to Pertamina but eventually these findings would prove as a good starting point for Pertamina to begin its change. There were a few positive points but the majority of the results showed negative perceptions on the company, which required urgent response. First, the public was certain of illegal activities at Pertamina gas stations. Second, the public considered Pertamina an institution full of corruption, collusion and nepotism (KKN). Third, Pertamina's business and exploration activities were causing environmental degradation. Fourth, Pertamina was not carrying out its corporate social responsibilities, and fifth, Pertamina's image was an arrogant and bureaucratic one.

These perceptions were not completely correct though, Pertamina's corporate social responsibility (CSR) programs, for example, have provided vast benefits. Like it or not, the society tends to focus on the bad qualities. Only relatively few spoke of the good qualities and they did not speak up.

I wasn't surprised at all with the results of the survey. Since its establishment 50 years ago, Pertamina has gone through many ups and downs, closely related to the power and authority cultures of our nation. It is a mere consequence that Pertamina is hand in hand with the powers of the nation, even having become a tool for the residing government's objectives. The public's perception on Pertamina was inevitable, and it served as a foundation in understanding how the public thought of the government. We accepted these perceptions with an open mind.

It is difficult to change the public's perception during a change with such a dominant opinion of power towards the company. This would take some time; especially since old management practices and traditions were still evident in Pertamina.

Apart from carrying out their regular business operations and being the government's political tool (before the issuance of Law No. 22/2001), Pertamina also had to carry out the role as regulator, allocation of resources, monitoring and control. Therefore Peramina was a double agent: it was a player and a regulator in the oil and gas sector. This position had a high amount of power, but at the same time it could prove as a weakness in the future. The advantage was that Pertamina had the opportunity and privilege to side with itself. On the other hand, this privilege was a 'poison' that caused delirium and destroyed Pertamina's future.

Oil and gas management can generally be grouped into two major parts: Upstream and downstream. The activities in the upstream include exploration, exploitation and production, while activities in the downstream include refinery, marketing and trading. As an oil and gas industry player, obviously the upstream sector provides the most added value. The explorations and production stages are highly complex, have a high uncertainty risk, and required developed technical skills, however, this sector also provided attractive rewards. This is especially true with significantly increasing world oil prices. The added value in processing and marketing were relatively low due to margin limitations, both from government regulations and market competition.

Pertamina was trapped on a comfort zone due to its double role as a player and regulator. The company became underdeveloped in the areas of human resources and technology; meanwhile it was pressured into becoming the government's errand boy, focusing on operational activities in the downstream sector (fuel production and distribution). Pertamina was more of a regulator in the upstream sector, dividing concessions, extracting fees, and supervising contractors through the Profit Sharing Contract. Pertamina was not allowed to risk oil and gas explorations and the company's role as operator was limited to a number of production fields.

This position made Pertamina strategically uncompetitive. The fact that Pertamina do not carry out technical core operations in the upstream sector left the company's technical capabilities, core operations technology capabilities, hu-

man resource abilities, and work ethics far behind those of other oil and gas companies in the industry. Even when Pertamina had mastered refining, marketing and distribution activities and the government regulations granted monopoly in Indonesia's oil and gas industry, the company's position still falters because this is not supported by development in the upstream sector. When the regulations changed, Pertamina had to compete with the players that they once regulated and looked down on.

Pertamina is an Indonesian economic powerhouse with several strengths but it also has weaknesses. The company's distribution channels and infrastructure are spread out thoroughly across the nation, however the reliability, service and efficiency were disappointing and many of the infrastructure facilities' conditions were below standards. They have large refining facilities but the design and technology have to be improved if they want to keep up with the competition.

Pertamina has a relatively large and extended reserve potential compared to other oil companies, however, this is not paralleled with sufficient technology, human resources, and processing capacity.

This is the condition Pertamina is when the company celebrates its 50th year. The company was once superior left a legacy that has now become more of a liability rather than an asset. I intentionally remind the employees that Pertamina may seem like a comfortable chair to sit in but not many seem to realize that the chair's legs are becoming dilapidated. I would hate to see the chair we all sit in so comfortably collapse into pieces.

Time passes and seasons change. Pertamina's business landscape has undergone a huge change, along with the events of reformation and changing national political situation. The issuance of Law No. 22/2001 opened new doors for Pertamina, they now have to compete with other oil companies and our market is now game for world-class players. The regulator and allocation functions that Pertamina once had are now back in the government's hands with the establishment of the Upstream Oil and Gas Regulatory Body (BP Migas or Badan Pengelola Minyak dan Gas), and the Downstream Oil and Gas Regulatory Body

(BPH Migas or Badan Pengatur Hilir Minyak dan Gas). The calculation of the fuel subsidies that once used the 'cost plus fee' rule was now adjusted to the market price, in addition to storage and distribution costs and margins. Meanwhile, the new regulation had also eliminated the company's monopoly rights in marketing fuels.

The changes above highlight the fact that Law No.22/2001 means Pertamina should become a 'normal company'. It should no longer become a golden boy that received special treatment, it became equal to other oil and gas companies. The company had to be commercially oriented, earning as much as it can but maintaining efficiency. The company also has to maintain a market share as large as possible, while building real capacity in its core operations. Pertamina's management and employees have to get used to business idioms such as profitability, efficiency, competitiveness, market share, ROI (Return on Investment), EBITDA (earning before interest, taxes, depreciation and amortization), and the likes. These words were previously only known in theory.

The spirit and need for change has been growing ever since 2001, and going as far back as 1994. The previous Pertamina leaders had initiated change since the company entered the age of open competition. Coincidentally, I was intensively involved in these change initiatives, along with a few colleagues.

Prior to the issuance of Law No. 22/2001, Pertamina had already begun several change initiatives. In 1994 Pertamina formed Team 15 to study and restructure, focusing on six areas: regulation, business patterns, management patterns, organizational structure, operations, and human resources. Two years later the Pertamina Restructuring Team (TRP or Tim Restrukturisasi Pertamina) was formed, with the mandate to continue concept development in the areas mentioned above. In 1998, the TRP became the Pertamina Restructuring Implementation Team (TIRP or Tim Implementasi Restrukturisasi Pertamina), who was to formulate the implementation plan. Following this in 2000, the Pertamina Corporate Restructuring Team (TRKP or Tim Restukturisasi Korporat Pertamina) was established with the mandate to quicken the restructuring implementation due to the upcoming Oil and Gas Regulatory Law.

One monumental moment was when Government Regulation No. 31/2003

was issued, which declared Pertamina as an officially limited liability (Perseroan Terbatas), as a consequence of Law No. 22/2001. This change in legal status means that Pertamina is now subject to all the laws of a limited liability company and the regulations of a State-Owned Enterprise/SOE (BUMN or Badan Usaha Milik Negara) as specified in the SOE Laws. The mission to become a "normal company" was a must. At the same time Pertamina had to think, behave, and act as any other business code would demand.

This was a golden opportunity for Pertamina. Along with its 50th anniversary, the company's stakeholders are determined to maintain the company as an economic powerhouse. I honestly hope that the transformation process is a success so that Pertamina may become a true economic powerhouse instead of the past powerhouse in which Pertamina was the center of development. The direction that the Pertamina locomotive should be heading is towards a more concentrated and sustainable economic powerhouse.

A true economic powerhouse must be visible through its management that is transparent and professional and able to support valid economical development for the nation. This means that Pertamina will not only be a source of income for the nation but also provide job opportunities and a reliable business partner for the suppliers, providers of service and products as well as the customers, and also become a source of knowledge, national capability, able to produce strategic initiatives in building the nation's economy.

In the area of human resource development, Pertamina must be able to play a strategic role and recruit the best and the brightest, both from the national and global markets. Given Pertamina's scale of business activities and transaction volume, it is only proper that the vision of becoming a true economic powerhouse become a reality.

To achieve all of these, Pertamina is currently realigning all its sectors and determined that within 15 years Pertamina will have become a world-class oil company. The Pertamina Charter, which is an agreement between Pertamina and its stakeholders, states our commitment to become the largest integrated oil

and gas company in Southeast Asia. Pertamina will also work hard in building a reputation as an elite company, which is managed professionally and takes seriously its good corporate governance. Regarding its human resources, Pertamina must be a company that puts its employees as the number one asset that is able to attract the best people from home and abroad. So far several results of these breakthrough programs have showed results but there is still so much that we must work on.

Reaching our goals requires new paradigms and management methods, different from those of the past. These paradigms and management methods in turn require symbols and ways to convey the new message. This is why we chose to work together with academic representatives on this book. Books and other academic works have been called symbols of civil and national development. The academic world is a source of knowledge, values, and references. The characteristics of the academic world are that it is universal, objective, and does not side with certain individual or group interests; it exists for the interest of the greater public. In a highly developed and civil society, the normative academic world and pragmatic real world tend to converge. The distance to the academic world is not that far. This converging spirit is what we emphasize and disseminate through this book.

It is only natural for us to hope that this book becomes a symbol of Pertamina's good will to lessen the gap between the normative and universal academic world to the practice of business management. We hope that business and management practices in Pertamina and in Indonesia in the future will growingly attend to high normative standards that are universally accepted. This is also true in light of global competition where values, achievement standards, quality and work standards are growingly measured as universal parameters for best practices. This book not only tells about Pertamina but also about best practices and lessons learnt from other companies and institutions. It was written in such a matter so that the analysis of Pertamina was conducted in a contextual manner. I am highly optimistic that this book will become a source of learning for Pertamina employees, as well as for the community in general and the academic society.

To Rhenald Kasali I extend my utmost appreciation for his creativity and

strong vision in bringing this book into realization. I send my gratitude also to the whole team of writers that have worked hard, conducting extensive research making this book an opulent reference. On behalf of Pertamina, I humbly present this book to the people. The road of developing Pertamina into a world-class integrated oil and gas company is a long one. Therefore, I humbly ask for the support and prayers from all of you so that we may work better.

Long live Pertamina, Long live Indonesia.

Jakarta, December 18, 2007

Ari H. Sumarno
President Director
PT Pertamina Persero

INTRODUCTION

"You have to think, so why not think big?" said the legendary businessman Donald Trump, whose wise words are often heard by executives throughout the world. True, we all have to think, why should we limit ourselves? What you think is what becomes reality, you are what you think, and vice versa. It sounds simple but oddly enough people don't interpret it that easily.

Most people think in a small and enclosed manner, of things that are tangible and sometimes locking them in the past, trapping themselves within boundaries. And then there is that small group of people that are able to free themselves of these limitations, think of things other people don't and see the future with a futuristic vision. They conquer the mind and environment egos, and even their intellectual egos, in order to explore a new world.

We call the new world the powerhouse world, that is an economic world where everything is large and iconic.

We as Indonesians would all like to see in our lifetime a national powerhouse become listed on prestigious lists such as the Fortune 500 Global Companies.

The Uniqueness of Changes in a Powerhouse

The uniqueness in a persons' DNA highly determines what they might become. Prof. Kazuo Murakami, a DNA researcher, said that humans have possibly limitless talent capacity in their DNA. However, he was also brave enough to say that you cannot be what is not written in your DNA.

Each individual has his or her own unique DNA and those that succeed are those who are able to maximize the unique talents that they have. With our own unique DNA, for example, Indonesians that have an average height under 175 cm do not need to dream of becoming NBA stars like Michael Jordan or Kareem Abdul Jabar. And it is no wonder that talent scouts don't come flocking in and out of Java or Kalimantan to find them. They would rather look in northern Africa, where

people over 2 meters tall are not surprisingly found, with long fingers that are able to hold a basketball convincingly.

Under the care of these talent scouts, people that have never known basketball are shaped, trained and developed. With their unique talents, change is predictable and becomes a reality. It is with this unique DNA also that basketball teams win professional tournaments, obtain large profits and fame.

Changes like these also make companies larger. Their ability to be big, to grow, and become champions is highly determined by their DNA, the DNA owned by people we call alpha individuals. They are chosen people who bring changes into a reality.

This is why I consider that changes that occur in powerhouses are different from those in small companies. The DNA talents that are encoded within the human genetics and behavior, that are passed on by founders to their heirs decidedly determine which way and how big a company will become. This is what we call alpha individual DNA in this book.

Big but Restrained

The potential you have will only determine the size of your posture. Like the children of northern Africa who are destined to grow tall, companies can also be destined to be big. However, the level of success you achieve is not determined by the fate or destiny in your DNA.

The fact is many people with large bodies move slowly, lack confidence, and sometimes even look stupid, like similar people in remote areas.

In powerhouse language, alpha DNA is not something given, like swallow nest owners who are able to attract quality swallows to their artificial houses.

This DNA must be shaped, mutated, and freed from its restraints, both external and internal ones that may reside in the alpha individual's mind.

There are various reasons a powerhouse is born, whether naturally by fine managers, or artificially by people with authority. No matter what the background, powerhouses may grow into something big and may also conceive certain dis-

eases that arrive because they fail to adapt to changes. They may also become trapped in their pasts, lack innovation, have relatively old human resources that are not renewed, and grow a permissive culture toward negative tendencies that degrades itself (like corruption, collusion, nepotism, and lack of discipline), and more.

When this is the case, then radical changes are required to mutate its DNA. The changes include turning 'economic' type DNA into 'organization' type DNA, from mere ideas to extent movements. In other words, breakthroughs are needed along with strong leadership. These changes are not easy tasks and need time. It also takes sacrifice, propositions and safeguarding.

Indonesian Powerhouse's

It is in Indonesia's best interest to build the economy with powerhouses. Powerhouses create vast employment opportunities, significantly contribute in taxes and convert an added value. They create value from something that is lying static within the earth and turn it into something that provides benefits. They are also icons that brighten a country's image.

Many facts have been recently revealed from various countries that governments alone cannot create wealth and prosperity. Developed countries have found that companies, namely powerhouses, are the economic vehicles. These companies become national symbols, such as Petronas in Malaysia, Daewoo in Korea, or Coca Cola in America. It is not easy to build something big. Powerhouses face external factors aside from internal factors such as human resources and investments. Its large image often faces negative perceptions and rejections. "Large" is often perceived as arrogant, dangerous, greedy and even constantly oppressing the weak.

The country is in the midst of a transformation, the legal authorities were economically and business illiterate, meanwhile anti-welfare activists were overtly suspicious of powerhouses. Powerhouses were not supported to become strong and prosper the nation, they were ridiculed, the smallest exposed and trialed in politically manipulated courts.

It is no wonder that many Indonesian powerhouses are not able to rise above what they currently are today. Domestically they are considered the enemy by the people and badgered by politicians who seek popularity. Various bodies or commissions under the notions of ‘equality’ or ‘justice’ penalize powerhouses. The companies are considered lacking social initiatives. Overseas, they become an easy target for acquisition when they are too strong and highly competitive. They are divided into small pieces by international agencies.

This is what is happening here, making the change process in powerhouses a difficult task. Meanwhile in other nations, the powerhouses are paved a road to development, respected and become the nation’s symbol and pride.

DNA Mutation

TThis book is not only for large and iconic company executives. The latest findings in DNA research (specifically behavioral genetics) reveal that your current DNA might not determine your future. Your behavioral DNA can change because it interacts with leadership and the environment around you.

These days a leader is more than just someone that manages a company. A leader’s job is to mutate their company’s DNA, bringing it into a new curve different from its old one.

At Pertamina (an Indonesian powerhouse), the DNA mutation is conducted through many steps, beginning from breakthrough programs, recoding the change DNA, formulating a new compensation system, to building values based on confidence, cleanliness, and customer focused as well as competitiveness.

When I was writing this book, the mass media was in a buzz about the selling off of two large tankers named VLCC. Events like this always attract pros and cons, and Pertamina in the past was directly linked to governmental control, linking the company to authority.

During the DNA mutation Pertamina initiated the integrity pact. The whole management on October 9, 2007 signed this pact. In this pact, the directors stated their promise in front of the public to be honest, trustworthy, avoid conflicts of interest, and provide zero tolerance towards corruption.

We have seen too many pacts such as these that are symbolically made but without results. In DNA mutation, this is not permissible. Thankfully the war against corruption is breaking out everywhere and the contributions from management studies are enabling company DNA to change.

At Pertamina, the integrity pact has begun within the company's strategic points, eliminating the old DNA and is visible through new policies such as e-auction, e-procurement, (both for procurement), authorization, and payment methods. This process is continuous and the signs of change are evident. It is these real changes that are happening in Pertamina, not just for the sake of change, which makes it so interesting and important to document.

Pertamina On The Move

This book describes the changes that have occurred in powerhouses all over the world, from an oil and gas powerhouse point of view. Why oil and gas? They are the main strategic resource for Indonesia. It is in this area also that Indonesia owns a powerhouse, Pertamina, which celebrated its 50th anniversary in 2007.

At this stage, large companies are usually inflicted with a disease called the 'middle-aged illness.' What I find interesting is we usually find the motivation to change during this stage. That is why we need a broader context in order to understand its position and the change happening, not just documentation.

Amidst the changing competitive and political climate, in addition to continuously depleting oil reserves, Pertamina decided to mutate its DNA. This is particularly interesting for me as a person who intensively studies the concept of change. I am certain that the changes in Pertamina will become important lessons for anyone that would want their company to grow into a powerhouse with sustainable competitive advantage.

Pertamina's DNA mutation is not the only story in this book; it also recounts the events of Saudi Aramco, Petronas, Toyota, Medco, Nokia, GE, Petrobras, YPF,

and other world powerhouses. Their success stories are valuable lessons for us in building organizations into powerhouses that our nation can be proud of.

Jakarta, September 2007

ACKNOWLEDGEMENTS

I would like to thank everyone who participated in the production of this book. First and foremost I thank the President Director of Pertamina, Ari H. Soemarno and the Deputy President Director, Iin Arifin Takhyan, as well as the Board of Directors including A. Faisal, Sumarsono, Sukusen Soemarinda, Suroso Atmomartoyo, and Frederick S.T. Siahaan. I would like to also extend my gratitude to the Secretary of Company Herman Bastari, the Senior VP of Marketing Hanung Budya, and the Communication VP Wisnuntoro who have opened their doors and the opportunity to observe the changes happening in Indonesia's largest powerhouse.

My highest appreciation also goes to my friends, the Expert Staff of the Managing Director, Mr. Didi Sunarwinadi, Wawan Irawan, and Sudirman Said who have been exceptional sparring partners while facing the hard times composing this book. I extend my thanks to all our counterparts, including Syahrial Mukhtar, Genades Panjaitan and Redesmon, also to Toharso, Adiatma Sardjito, and Arya Dwi Paramita, who gladly provided suggestions and were discussion partners who enriched this book. I would also like to thank the friends in regional offices, including VPs, GMs and field staff at the Marketing and Distribution Units and Pertamina EP, from Sumatra to Papua, and from large cities like Jakarta to conflict areas such as Iraq, whose stories have made this book come to life.

I express my highest gratitude to Mr. Michael Darmawan Ruslin and Mr. Aminuddin (PT Astra International), Mr. Arifin Panigoro (Medco), and Mr. Batara Sianturi (Citibank Hungary).

I especially thank the research team lead by Mahendra Gautama, including Ahmad Bayu Aji Nugroho and Sekar A.

My infinite gratitude I extend to Mr. Susilo Bambang Yudhoyono and Mr. Jusuf Kalla, as well as the Minister of State-Owned Enterprises Mr. Sofyan Jalil for their tremendous support and attention to the resolution of this book.

Dedicated to Indonesia's best and brightest individuals in order that they continue to improve the quality of life, care for and protect the nation from international pressures and from negative assumptions within our own country.

To those who participate in building this nation, families, beloved teachers, friends, and students, and everyone involved in the change movement at the House of Change Foundation.